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FOR AMERICAN INDIANS

OFFICE OF TRUST FUNDS MANAGEMENT

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Locating "Whereabouts Unknown"

Approximately 9 percent of the people out of a list of 40,000 account holders for which we had no known address have responded with their current addresses. The list was published in October 1996 in "*Indian Country Today*," and we are still receiving two-to-ten letters each day from that advertisement. OTFM's next attempt at locating these people will be a list, by Tribe, to be published in tribal newspapers. Additionally, the list of lost account holders is published at the OST/OTFM website that can be reached through the Internet at (<http://www.ost.doi.gov>). It is anticipated this will be an ongoing activity due to the mobility of the Indian community. OTFM will also be issuing a contract or purchase order for outside help to locate the higher dollar whereabouts unknown account holders, during Fiscal Year 1997.

Movement of Tribal Accounts from IIM to OmniTrust

As of the end of March 1997, 34 Tribal IIM accounts were closed, and the money moved to the Omni System in the amount of \$2,465,589.55. The project is on hold awaiting the Solicitor's approval before continuing. OTFM has approximately 600 accounts currently under review for possible action.

Limited Payability Monies

New procedures were implemented for the distribution of limited payability monies to eliminate the manual interest calculation and ensure all monies are being distributed back to the IIM accounts rather than holding them in suspense. Limited Payability is a Treasury regulation implemented in about 1989. All Treasury checks that are not cashed are canceled and returned to the issuing office in the 13th month from the day they are cut. Before implementing the new procedures, individual checks rested in the holding account long periods of time before being moved to the individual accounts from which they were disbursed. Additionally, the fraught-with-error manual interest calculation was used to move the interest associated with the check amount.

The new procedures mandate the use of the Closed Accounts Programs (CAPs) to move the principal. These programs automatically calculate the interest using factors reflective of the actual earnings. These programs are used when moving an entire account balance and closing the account which fits the criteria of the Limited Payability holding accounts.

Once again, the new procedures will eliminate the labor intensive manual interest calculation associated with the movement of funds from the Limited Payability holding accounts freeing up staff hours for other issues. Because the interest calculation is now correct, the potential for additional liability to the federal government is eliminated. Finally, the procedures mandate the movement of the canceled check funds from the holding account to the individual accounts monthly.

posted to the account. This amount was then posted.

This N73/C37 interest catchup process was part of a year long effort to standardize the IIM transactional databases to correctly show if an account had received monthly interest. This was accomplished by changing the reference code field to a unique code which indicates that the interest is in fact "monthly" interest. This first step was necessary to implement a program which automatically calculates interest if any monies were to be distributed from the account. This new Partial Account Distribution (PADS) program implementation date is May 5, 1997. Also, a new Lease Distribution program is to be implemented.

Both programs automatically calculate and produce the necessary financial documents needed to disburse funds with the amount of interest earned and record in the account the fact that both principal and interest have been disbursed.

This will dramatically reduce additional liabilities to the Federal Government. Implementation will also result in more FTE hours devoted to other issues as manual interest calculations are very labor intensive to BIA realty, IIM technicians and central office accountants.

Closed Account Programs (CAPs)

Previously, when an IIM account was closed, interest was manually calculated and posted to the account. This interest was, in most instances, calculated incorrectly if calculated at all. A new program was developed (Closed Account Program) which would automatically calculate the interest, prepare the necessary financial documents and place a code on the account which indicated that the account was now closed.

OmniTrustES 1.3

The OmniTrustES system, owned and operated by SunGard of Birmingham, AL, is used by OTFM to manage the over \$2.5 billion of financial instruments which are held in trust for various Tribes and Individual Indians. The system contains approximately 2,000 accounts. One of these accounts holds the assets for the over 300,000 IIM accounts in a pool status. Data is entered by OTFM personnel in Albuquerque, NM and transmitted daily to the SunGard facility for processing. Reports and on-line inquiry can be conducted by personnel located at the OTFM headquarters, 12 Area Offices, over 85 Agencies and those tribes with assets in the system, that have requested connectivity.

OTFM converted to OmniTrustES , version 1.2, on March 31, 1995. Version 1.3 is an upgrade of the system which was provided by SunGard to all of its customers. This conversion is to be completed in April 1997.

As with any upgrade, testing on the new system was accomplished prior to the scheduled

conversion. The Test Team included personnel from OTFM's Divisions, who have worked for over six months testing the new features of the system to ensure that the upgrade goes smoothly. The tests were successful.

PACER

OTFM offered to act as a pilot agency for the implementation of this Department of the Treasury Financial Management Systems program. In December of 1996, OTFM was informed by Financial Management Services (FMS) that the PACER project was being redefined in light of recently enacted legislation. In March of 1997, OTFM was informed by FMS that the modified program would be available for testing in September of 1997. Primarily, OTFM will use the on-line claims feature and the ability to retrieve images of canceled checks. The OTFM staff has been working closely with the FMS during the past year to discuss various issues concerning this project. Currently, we are awaiting further word from FMS.

Power and Irrigation Projects

OTFM's Trust Accounting staff worked with BIA Power and Irrigation on final procedures for transferring delinquent irrigation fees from IIM accounts to Irrigation projects. The projects were not receiving timely notification due to lack of proper procedures. The Billings Area Trust Accountant (currently the only Area involved in the process) now faxes the completed transfer documents directly to the projects. The account holders are notified and agree to have the funds transferred. The process is manual. OTFM accomplishes the On-line Payment and Accounting Control (OPAC) that transfers the funds. Although the previous agency's delay in notifying the projects of the transfer did not affect the account holder, it did affect the projects in that funds needed for operation were not available to them simply because they were not aware funds had been received. In this regard, OTFM was able to assist and improve the overall effectiveness and efficiency of this process.

VI. MILESTONES ACCOMPLISHED

Administration

During this period, the Division of Quality Assurance was assigned an Acting Division Chief to provide management direction for the various programs assigned to the division. Prior to this, the personnel and program management was performed by the Deputy Director due to the Division Chief position being encumbered by an individual detailed to the Past Reconciliation Project. The review program is in its infancy, and as a new program lacks proper manuals and procedures. Also, we are currently providing training to staff to ensure performance of quality reviews.

As a new office, the OTFM is undergoing a multitude of changes, from the organizational

structure to the day-to-day operational procedures resulting from upgrades to current systems. As a result of these changes, policies and procedures are also constantly changing or being revised. The Division is tasked with an enormous challenge to bring all pertinent guidelines current. With the transfer from the Bureau of Indian Affairs to the Office of the Special Trustee, all delegations were rescinded and are currently being reestablished. Regulations providing authority for BIA staff to process trust transactions need to be rewritten to provide OST staff this authority. Policy and procedures to implement these new changes also need to be written. With limited staff, OTFM cannot accomplish all that needs to be accomplished within the proposed time frames. Therefore, OTFM is seeking outside assistance to accomplish this. Basically, all policies and procedures affecting all programs, from the administration, budget, human resources, accounting, and management are subject to revision or reestablishment. These policies and procedures are needed to comply with the *American Indian Trust Funds Management Reform Act of 1994* which mandated reform initiatives to ensure that trust management practices would be consistent with the trust responsibility of the United States.

Development of the Office of the Special Trustee Manual (OSTM)

OSTM Chapter Issuances: OTFM initiated a project to develop an OST policy and procedures manual pursuant to the Administrative Procedures Act and Departmental requirements. This manual will include the administrative and program compliance requirements for both the Office of the Special Trustee and the Office of Trust Funds Management. A draft index has been developed, as well as a set of draft procedures for issuance of documents in the OSTM. Draft interim records management preliminary procedures have been completed to provide guidance for handling and protection of records until the final procedures can be issued as OST manual issuances. Work flow plans and appropriate record descriptions are being developed to support the OST Records Control Schedule (RCS) draft. In accordance with the Government Performance and Results Act (GPRA), OTFM plans for all numbered memoranda to be revised and reissued through the OSTM during FY 1997 and FY 1998.

OSTM Handbooks - OmniTrust Procedures Manual: OTFM has developed five sets of procedures for the OmniTrust Procedures Manual, which will be a subset, or handbook, of the Office of the Special Trustee Manual. OmniTrust is the accounting system used primarily for OTFM tribal trust funds. Although these procedures will be published initially in the Numbered Memoranda system, the plan is to combine them into a handbook complementing the OSTM system. Having this handbook in place will make it possible for new employees to have concise procedures and guidelines to follow which will simplify their indoctrination.

Included in this are procedures that are used on the System, i.e., how to sign on and off to the OmniTrust system; Investment accounting processing involving procedures on how to process trade settlements, overnight investments, how to price securities, etc.; Accounting cash processing which includes procedures for receipts and payment processes; Trust services, i.e., Traders, File maintenance, Failed trades/rejects, and Reconciliation processes, i.e., cash to

Treasury, custodial locations, daily reconciliation, and batch control and processing.

Policies / Procedures

Since OTFM's transfer from BIA to the Office of the Special Trustee in FY 1996, major efforts have been underway to develop policies and procedures covering all systems and processes, and to update and/or revise regulations, manuals and handbooks for the central office and field staff. With the added responsibilities and duties imposed on the field staff by the transition to OST, it is very critical that appropriate guidelines are in place.

A step forward was implementation of the revised OTFM Numbered Memoranda system to enable OTFM to issue Policies, Procedures, and Delegations of Authority in memorandum format. To date, OTFM has published four Policies, three Procedures and four internal Delegations of Authority using this system, including among others:

- Fiscal Year-end closing Procedures for OMNI and IDRS
- Investment Policy and Amendment I
- IIM Prior Period Adjustments
- Announcement of Delegation of Authority from the Special Trustee for American Indians to the Director, OTFM
- Delegation of Administrative Authority to the Chief, Field Operations
- Delegation of Administrative Authority to Area Field Trust Accountants

The policy concerning voluntary deposits is currently in draft form and should be finalized and disseminated during this fiscal year. Additional policies and procedures ranging from improvements and reforms to the IIM system to delegations of administrative and program authority are in progress. OTFM also continues to address and implement strategies to correct deficiencies indicated in the FY 1995 Internal Control/Compliance Reports.

Department Manual (DM) System

The Department published five documents in the Department Manual pursuant to the Secretarial Order of February 1996, which required that all organizations and high level delegations of authority be published in the DM prior to October 1, 1997. The Department published two of its organizations in the DM, i.e., that of the Office of the Special Trustee and the Office of Trust Funds Management. The latter document included the new Division of Field Operations, which oversees the Area Trust Accountants and the Financial Trust agency personnel. Two delegations of authority were published in the DM based on these organizational changes. One delegation

Portfolio Management System

The OTFM has contracted with SunGard to provide an accrual-based portfolio management system (BOLT) to meet reporting requirements for the annual audit and selected portfolios, e.g., Individual Indian Monies and Alaska Native Escrow Fund must be valued monthly, Pyramid Lake Fisheries must be valued annually. The system is FASB 91 compliant for the mortgaged backed securities and Generally Accepted Accounting Principle (GAAP) compliant for all other security types (Effective Interest Method).

The system was needed to automate the monthly earnings valuation for the IIM monthly earnings distributions to the individual account holders. This was a very labor intensive process. Additionally, selected securities in the IIM investment portfolio are very "high tech" in the way the amortization/accretion must be calculated. OTFM did not have the "high tech" resource to do the calculation prior to BOLT. OTFM had received Internal Control Report comments in the 1995 Balance sheet audit due to the fact that calculations on the IIM portfolio and the OTFM portfolio as a whole were not GAAP/FASB 91 compliant.

OTFM is in the process of requesting permission for the trust funds to not be subject to certain requirements of the Chief Financial Officers (CFO) Act which requires compliance with GAAP/FASB. OTFM believes that Tribal and individual Indian trust funds should be reported in line with private industry trust standards. This would mean Office of the Comptroller of the Currency reports where the assets in the portfolio are reported at cost and market value and cash basis vs. amortized/accreted costs with interest reported on the accrual basis. If trust funds can successfully be removed from this requirement of the CFO Act, then OTFM will only need BOLT for earnings calculations on selected portfolios such as IIM.

Currently, records from OTFM's trust accounting system are being downloaded to the BOLT system to facilitate the compilation of monthly financial statements as they relate to securities (amortization, accretion, accruals, gains and losses). In addition, an automated reconciliation process between the trust accounting system and the BOLT system is under development.

The Investment Accounting Branch provides regular maintenance, reconciliation, and encoding of trust accounting for investments in the OmniTrust and BOLT systems. The Branch also provides assistance to customer representatives, investment officers, and other department branches within OTFM.

Report of Independent Public Accountants on Financial Statements

In prior years, OTFM has prepared and issued unaudited annual financial statements/reports for Indian Trust Funds. The statements/reports were prepared pursuant to guidance contained in the Chief Financial Officer's (CFO) Act of 1990. These financial statements/reports were an addendum to the Bureau of Indian Affairs' appropriated funds' CFO Report without consolidation.

throughout a given month and distributed to Agency level accounts based on an account holder's end-of-month balance. At the end of the calendar year, a "reportable/taxable percentage" figure is computed and used to calculate an individual's reportable 1099-INT amount. In January, "1099" information listings are provided to Area Trust Accountants for verification and "certification." Once "certified," the 1099s are finalized and issued. The FY 1996 1099s were issued on January 17, 1997. Any corrections are the responsibility of each Area Office and are coordinated via OTFM. The OTFM coordinates preparation and filing of the required mag media reporting with the IRS.

Trust Task Reporting: The primary concentration of the Division has been in the area of Forms 1099-INT reporting. However, our attention is being refocused on an expanded level of trust tax reporting. The most significant step taken in this area has been the advertisement of two tax accountant positions which closed in April 1997.

The filling of these positions will permit attention to proper trust tax reporting, review of present tax code utilization of securities transactions, clarification of tax issues for our clients, and system enhancement with a taxation focus.

Our Goals include:

- Completion and filing of appropriate fiduciary tax returns for all minors and individual supervised (*Non Compos Mentis*) accounts.
- Preparation and filing of fiduciary tax returns for every taxable trust account.
- Tax Lot Accounting - Calculate or determine the capital gains and losses for tax purposes of tax lots for each asset in each account and prepare analytical performance measurement reports.
- Withholding Procedures - Determine the tax status of beneficiaries, the taxation and withholding rates to be applied, what amounts are reclaimable, and eligibility for a reduced withholding rate.
- Withholding Procedures Built-in-Complexities - Better than 50% of individual account holders earning income do not have a Social Security Number on file. If the account holder does not supply the SSN, then we need to withhold estimated taxes (25% of income) used as a credit on annual income tax filings. Second, we need assessments of penalties and interest charges resulting from lack of proper tax reporting forms and reporting mechanisms. *Noteworthy: a plan is proposed to match IIM names with names & SSN on IRS data files in order to obtain SSN and current address.*

Customer Service & Trust Funds Investment

The Tribal meetings conducted by the Branches of Customer Service and Trust Funds Investments during the first six months of fiscal year 1997 total 23 actual physical meetings for

discussions about investment holdings and system training. These visits are mostly on-site on the reservations; however, four were at the Albuquerque headquarters. Seventeen of these were with the top 100 tribes (dollar-wise). Innumerable contacts are made by telephone and telefaxing of information on a daily basis. Tribes are becoming accustomed to contacting the OTFM for financial trust services and have come to rely on the information provided on the investment and reporting activities. Auditors hired by the tribes and individual account holders by the hundreds contact this office after having discovered they now have an office to direct their inquiries to and a 1-800 number.

Both Branches have participated in portfolio reviews of 18 Tribes with the Special Trustee and the OTFM Management Board. This is in keeping with provisions of the OTFM Investment Policy, where the objective is to review for conformance to policy guidelines all investments held by the 50 largest Tribes each twelve-month period. This allows for review of approximately 85% of the funds managed by OTFM.

As a routine and ongoing function, the Branch of Trust Funds Investments buy and sell securities for all 300+ Tribes, and includes the IIM pool. Investments are continuously being made and purchases average approximately \$90 million each month.

The Branch of Customer Services has concentrated much of its time in developing "Synoptic Sheets" for each account. Completed Synoptic Sheets contain summary information about the public law or court decision that created the account, the distribution requirements under the Use and Distribution Plan, and investment instructions agreed upon with the Tribe. These sheets are required as a first line control mechanism so that the management of the account can preclude errors from occurring, such as invasion of principal. Compilation of data has been difficult and efforts have been extensive because of the large numbers of accounts and the numerous entities involved that have various fragments of the documentation required and that has accumulated through the years in the management of these accounts.

Withdrawal of Tribal Funds

No new applications to withdraw tribal funds from U.S. Trust have been received since the previous report. Three tribes have withdrawn funds under PL103-412, and one application is on hold awaiting additional information from the tribe as well as from the DOI Solicitor's office. OTFM has received information that other tribes may be interested, and that they are working with commercial fund managers.

OTFM is also working with a tribe which asked to return some funds to trust which had been withdrawn (not under PL103-412) for economic development purposes.